CANADIAN CURTISS WRIGHT, LIMITED

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ANNUAL REPORT

1973

CORPORATE DIRECTORY

DIRECTORS

David Lasky	John B. Morris	Melvin M. Hawkrigg
Thomas F.G. Lawson	Gerald Nachman	John B. Webster
	Charles F. Scott	

OFFICERS

John B. Morris . . . . . *Chairman of the Board and President*

Lloyd S. Hoar . . . . . *Vice-President*

Albert C. Madge . . . . . *(President - Webster Air Equip. Ltd.) Vice-President*

Martin A. Sherry . . . . . *Treasurer*

Charles F. Scott, Q.C. . . . . . *Secretary*

Francis E. Fallon . . . . . *Assistant Secretary*

Edward A. Taylor, C.A. . . . . . *Controller*

AUDITORS

Coopers & Lybrand . . . . . *Toronto, Canada*

CORPORATE COUNSEL

Gowling & Henderson . . . . . *Ottawa, Canada*

TRANSFER AGENT AND REGISTRAR

The Canada Trust Company . . . . . *Toronto, Canada*

CANADIAN CURTISS WRIGHT, LIMITED

Mississauga, Canada

E. A. Taylor, C.A.

CONTROLLER

CANADIAN CURTISS-WRIGHT, LIMITED

6503 NORTHAM DR., MISSISSAUGA (TORONTO) ONTARIO. (416) 677-3930

HIGHLIGHTS

	1973	1972
Sales	**$11,042,100**	$12,376,391
Earnings Before Income Taxes and Extraordinary Items	**$ 1,056,683**	$ 567,417
Provision for Income Taxes	**$ 495,000**	$ 304,000
Extraordinary Gain	**$ 103,104**	$ 57,596
Net Earnings for the Year	**$ 664,787**	$ 321,013
Net Earnings Per Share	**14¢**	7¢
Retained Earnings	**$ 2,014,804**	$ 1,350,017
Shareholders' Equity	**$ 3,762,412**	$ 3,097,625
Working Capital	**$ 3,351,643**	$ 2,754,420
Number of Common Shares Outstanding	**4,690,922**	4,690,922

CANADIAN CURTISS WRIGHT, LIMITED

TO THE SHAREHOLDERS:

Your Company is happy to report that in 1973 its net profits and book value per share reached the highest levels in the Company's history.

1973 after tax profits were $664,787 or 14¢ per share, compared with $321,013 or 7¢ per share in the previous year. Earnings before taxes and extraordinary items were $1,056,683 in 1973, compared with $567,417 in 1972.

Extraordinary items, net of taxes, showed a gain of $103,104 in 1973, compared with a gain of $57,596 in 1972. The 1973 gain resulted primarily from a considerable margin over the book value of recreational vehicle engines and parts (previously written down to realizable market value) returned to the Corporation's former supplier, in accordance with the terms of the termination agreement, at the Corporation's landed cost.

The greater portion of the extraordinary 1973 profits, while desirable in terms of 1973 results and increased Corporate net worth, marked the end, at least for the time being, of the Company's activities in selling engines for recreational vehicles, which had accounted for a large share of the Company's sales, and a lesser but significant part of its profits.

Sales for 1973 were $11,042,100, as compared with $12,376,391 in the previous year. The lower sales were primarily the result of a serious decline in volume in the snowmobile industry in 1973, partly because of the lack of snow in many areas of Canada and the United States.

Shareholders' equity at the end of 1973 reached a new all-time high for the Company. At December 31, 1973 the Company's net worth was $3,762,412, a book value of 80¢ per common share, compared with 66¢ per share at the end of 1972. At the 1973 year end, the Company's assets included cash and cash equivalents of $2,256,000 or 48¢ per share.

Your Company's current major activities now comprise the manufacture and sale of air compressors, paint spray equipment, and ancillary products by its wholly-owned subsidiary, Webster Air Equipment Limited of London, Ontario, and the sales and servicing of parts for aircraft engines and propellers manufactured by the parent U.S.A. company.

Webster Air showed substantial growth in both sales and profits in 1973. Sales increased by 30%, and the increase in profits was significantly larger than that of sales. The sales increase was mainly in the Webster line of piston type compressors in the 1/4 to 15 horsepower range.

Webster has signed a license agreement with the United Kingdom manufacturer of the Fluidair rotary vane compressor line for the manufacture in Canada by Webster of two high volume models which Webster presently imports. This will, it is anticipated, result in an improvement in Webster's deliveries of rotary compressors, and increased profits on Fluidair sales. Additional capital equipment will be required for this program. This equipment will broaden Webster's machining capability for its complete line of products.

During 1973, Webster completed the design of a larger piston type compressor than it had previously manufactured. The program for the development of this significant addition to the Webster compressor line is well advanced, extending the range of Webster piston type compressors up to the 40 horsepower level. It is expected that marketing of the new larger compressor will begin in late 1974.

1973 also saw the addition of the marketing only of two ancillary product lines. While these new product lines will not produce volume sales, they will provide the Webster distribution system with a more complete compressor and spray gun line. One is a line of specialized paint application equipment, the other special air processing and drying equipment used in many manufacturing plants.

Webster's growing volume and the need for more sophisticated information systems for a larger operation caused the installation at Webster of a minicomputer which will expedite billings, statements, and financial and manufacturing reports, to permit better management control of operations.

Looking toward the future, an agreement has been negotiated for the purchase of the land and building in London which comprise the Webster facility, and which are presently leased by Webster Air. Contracts have also been let for a small office expansion at the present plant.

CANADIAN CURTISS WRIGHT, LIMITED

With the knowledge early in the year that the Company's representation of the Japanese line of recreational vehicle engines would be terminated, the Company was able, on a planned basis, to implement significant reductions in costs as the year progressed. The lease on the warehouse which the Company maintained in Milwaukee, Wisconsin, has now been completely terminated. The Corporate office at Mississauga, with its no longer needed warehouse space, was subleased by the Company in February 1974, for April occupancy by the sublessee. The Corporate office will move to presently undetermined much smaller quarters in April. The staff at the Mississauga office has been reduced to a very modest number.

A major portion of the Company's energy and time in 1974 will be directed towards growth activities. At Webster Air, in addition to the growth steps already described, Webster will expand its search for new products which fit with its current marketing activities. A further increase in volume is expected, not only as the result of the Canadian manufacture of leading selling models of the Fluidair rotary compressor and of the new larger conventional compressor, but also as the result of growth in sales in the products which Webster has manufactured and marketed in the past.

The Company is continuing to investigate new product lines for the Mississauga operation, to capitalize on its marketing skills. Discussions continue with potential acquisition prospects, and a major effort will be made to select and conclude a significant acquisition during 1974.

As indicated above, the Company is in a highly liquid financial position. Funds are invested on a short term basis, and due to current high money rates, are thus accounting for significant income. Bank borrowings have, of course, been completely eliminated.

As a result of the cost reductions, the investment of liquid funds, and the growth at Webster Air which is expected to continue, the Company is projecting significant profits for 1974, although at a definitely lower level than the all-time high results of 1973.

The Company is happy to extend its thanks to shareholders, customers and suppliers for their support and cooperation, and to employees for their dedication, loyalty, and continued effective efforts.

On behalf of the Board of Directors,

John B. Young

Chairman and President

March 12, 1974.

CANADIAN CURTISS WRIGHT, LIMITED

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1973
(with comparative figures as of December 31, 1972)

ASSETS

	Cost	Accumulated depreciation	1973	1972
CURRENT ASSETS				
Cash			$ 81,894	$ 123,296
Short term deposit receipts			2,175,000	–
Accounts receivable			899,842	1,245,866
Income taxes recoverable			–	25,912
Inventories – at the lower of cost or net realizable value (note 2)			894,431	2,002,550
Prepaid expenses			30,250	35,194
			$4,081,417	$3,432,818
LONG-TERM ACCOUNTS RECEIVABLE			$ 8,099	$ 9,000
FIXED ASSETS				
Equipment and other	$351,448	$299,647	$ 51,801	$ 49,249
Leasehold Improvements	23,921	12,895	11,026	18,113
	$375,369	$312,542	$ 62,827	$ 67,362
OTHER ASSETS				
Excess of cost of investment in subsidiary company over the book value of net assets at date of acquisition			$ 412,843	$ 412,843
			$4,565,186	$3,922,023

CANADIAN CURTISS WRIGHT, LIMITED

LIABILITIES

CURRENT LIABILITIES	1973	1972
Accounts payable and accrued liabilities	$ 371,577	$ 439,903
Current portion of long-term debt	73,000	73,000
Income taxes	274,741	—
Trade account payable to parent company	10,456	165,495
	$ 729,774	$ 678,398
LONG-TERM DEBT	73,000	146,000
Non-interest bearing notes payable in annual installments of $73,000, less current portion.	$ 802,774	$ 824,398

SHAREHOLDERS' EQUITY

CAPITAL STOCK		
Authorized — 10,000,000 shares without par value		
Issued and fully paid — 4,701,282 shares (note 3)	$1,755,108	$1,755,108
RETAINED EARNINGS	2,014,804	1,350,017
	$3,769,912	$3,105,125
SHARES ACQUIRED		
Cost of 10,360 shares of the Company acquired during 1972	7,500	7,500
	$3,762,412	$3,097,625
SIGNED ON BEHALF OF THE BOARD		
J.B. Morris, Director		
Thomas F.G. Lawson, Director	$4,565,186	$3,922,023

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Canadian Curtiss-Wright, Limited and subsidiary companies as of December 31, 1973 and the related consolidated statements of earnings and retained earnings and source and use of working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination for the year ended December 31, 1972.

In our opinion these consolidated financial statements present fairly the financial position of the companies as of December 31, 1973 and 1972 and the results of their operations and the source and use of their working capital for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

January 29, 1974
(March 8, 1974 with respect to Note 8)

COOPERS & LYBRAND, Chartered Accountants

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1973 (with comparative figures for 1972)

	1973	1972
SALES	$11,042,100	$12,376,391
COST OF SALES	8,889,389	10,521,380
	$ 2,152,711	$ 1,855,011
SELLING, GENERAL AND ADMINISTRATIVE, AND FINANCIAL EXPENSES	1,096,028	1,287,594
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	$ 1,056,683	$ 567,417
PROVISION FOR INCOME TAXES	495,000	304,000
EARNINGS BEFORE EXTRAORDINARY ITEMS	$ 561,683	$ 263,417
EXTRAORDINARY GAIN (note 4)	103,104	57,596
NET EARNINGS FOR THE YEAR	$ 664,787	$ 321,013
RETAINED EARNINGS - BEGINNING OF YEAR	1,350,017	1,029,004
RETAINED EARNINGS - END OF YEAR	$ 2,014,804	$ 1,350,017

	1973 Cents	1972 Cents
EARNINGS PER SHARE		
Earnings before extraordinary items	11.97	5.62
Net earnings for the year	14.17	6.84

The following are included in the above statement:

	1973	1972
Depreciation of fixed assets	$ 16,533	$ 19,544
Directors' fees	3,900	4,200
Interest on long-term debt	—	6,856
Other interest expense	31,933	66,537
Interest income	42,996	8,929

CANADIAN CURTISS WRIGHT, LIMITED

CONSOLIDATED STATEMENT OF SOURCE AND USE OF WORKING CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 1973 (with comparative figures for 1972)

	1973	1972
SOURCE OF WORKING CAPITAL		
Earnings before extraordinary items	$ 561,683	$ 263,417
Items not affecting working capital —		
Depreciation and amortization of leaseholds	16,533	19,544
Loss on disposal of fixed assets	8,925	—
Provided from operations	$ 587,141	$ 282,961
Extraordinary Gain	103,104	—
Proceeds on sale of fixed assets	4,761	443,748
Decrease in long-term accounts receivable	901	98,987
	$ 695,907	$ 825,696
USE OF WORKING CAPITAL		
Reduction of long-term liabilities	$ 73,000	$ 247,464
Purchase of fixed assets	25,684	17,582
Purchase of Company's shares	—	7,500
Patent infringement suit	—	6,500
	$ 98,684	$ 279,046
INCREASE IN WORKING CAPITAL	$ 597,223	$ 546,650
WORKING CAPITAL — BEGINNING OF YEAR	2,754,420	2,207,770
WORKING CAPITAL — END OF YEAR	$ 3,351,643	$ 2,754,420

CANADIAN CURTISS WRIGHT, LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1973

1. BASIS OF CONSOLIDATION

The accounts of all the subsidiary companies, all of which are wholly-owned and one of which is active, have been consolidated. Assets and liabilities in foreign currency have been converted to Canadian funds at the exchange rate in effect at December 31, 1973. The excess of the cost of the active subsidiary company over the book value of its net assets at the date of its acquisition in 1970 is not being amortized.

2. INVENTORIES

These are classified as follows:

	1973	1972
Finished Goods	$595,261	$1,664,708
Work in Process	30,684	18,242
Raw Materials	268,486	319,600
	$894,431	$2,002,550

3. STOCK OPTIONS

The company has a share option plan for full-time executives of the company.

The maximum number of shares that can be optioned under this plan is 100,000. Under the plan, the company has outstanding to two full-time officer employees options to purchase 30,000 common shares at prices equal to 90% of the mean of the high and low sale prices on the Toronto Stock Exchange on the dates of the grant of the options, exercisable as follows:

(a) 15,000 common shares at a price of 69.56 cents per share exercisable at the rate of 3,000 per year on or after March 20, 1970 and expiring five years after the earliest exercisable date.

(b) 15,000 common shares at a price of 70.20 cents per share exercisable at the rate of 3,000 per year on or after November 16, 1972 and expiring five years after the earliest exercisable date.

CANADIAN CURTISS WRIGHT, LIMITED

4. EXTRAORDINARY GAIN

This consists of:	1973	1972
Net gain on discontinuance of business, less related income taxes of $102,000	**$103,104**	$ –
Gain on sale of land and buildings, less related income taxes of $16,500	–	64,096
Settlement of patent infringement suit, less related income taxes of $6,000	–	(6,500)
	$103,104	$57,596

5. CONTINGENT LIABILITY

Subject to conditions, the company has guaranteed to October 9, 1975 that the recipient of the 303,240 shares issued in 1970 for the acquisition of a subsidiary company will, upon the sale of the first 101,080 of these shares, realize a minimum of $73,000. If this amount is not realized then the company will be required to issue sufficient additional shares as determined by a formula in the agreement to compensate for the difference between $72,998 and the amount realized.

6. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid or payable by the company and its subsidiary companies to the directors and five senior officers amounted to $102,432 for the year ended December 31, 1973.

7. LEASE COMMITMENTS

At December 31, 1973, the companies had lease commitments for premises providing for approximate annual rentals of $71,000 to 1979, $57,000 from 1979 to 1981 and $21,000 in 1982. Equipment leases of five years or more require annual rentals of $14,400 to December 31, 1978.

8. EVENT SUBSEQUENT TO DECEMBER 31, 1973

On March 8, 1974 a subsidiary agreed to purchase land and building for a total consideration of $381,000. This property is being leased for $36,246 per annum as described in note 7.

CANADIAN CURTISS WRIGHT, LIMITED

Mississauga, Canada